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# STATE BOARD OF EQUALIZATION
# STAFF LEGISLATIVE BILL ANALYSIS

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| Date: | **05/02/13** | Bill No: | **Senate Bill 1** |
| Tax Program: | **Transactions and Use** | Author: | **Steinberg** |
| Sponsor: | **Author** | Code Sections: | **HSC 34191.10,et al** |
| Related Bills: | | Effective Date: | **01/01/14** |

***This analysis only addresses the provisions that impact the BOE.***

## BILL SUMMARY

Among other things, this bill authorizes specified local governments of a Sustainable Communities Investment Area, as described, to establish a Sustainable Communities Investment Authority to levy a transactions and use tax (district tax) within those boundaries.

### Summary of Amendments

Since the previous analysis, this bill was amended to prohibit a city or county that created a redevelopment agency from forming a Sustainable Communities Investment Authority unless the successor agency has received a finding of completion from the Department of Finance (DOF).

## ANALYSIS

### CURRENT LAW

The State Board of Equalization (BOE) administers locally-imposed sales and use taxes under the Bradley-Burns Uniform Local Sales and Use Tax Law and under the Transactions and Use Tax Law, which are provided in separate parts of the Revenue and Taxation Code. By law, cities and counties contract with the BOE to perform all functions in the administration and operation of the ordinances imposing the local and district taxes.

The **Bradley-Burns Uniform Local Sales and Use Tax Law** (Part 1.5, commencing with Revenue and Taxation Code Section 7200) authorizes cities and counties to impose a local sales and use tax. This rate of tax is fixed at 1 percent of the sales price of tangible personal property sold at retail in the local jurisdiction, or purchased outside the jurisdiction for use within the jurisdiction. Of this 1 percent, cities and counties use 0.75 percent to support general operations. The remaining 0.25 percent is designated by statute for county transportation purposes, but restricted for road maintenance or the operation of transit systems. The counties receive the 0.25 percent tax for transportation purposes regardless of whether the sale occurs in a city or in the unincorporated area of a county. Currently, all cities and counties in California impose the Bradley-Burns local taxes at the uniform rate of 1 percent.

The **Transactions and Use Tax Law** (Part 1.6, commencing with Revenue and Taxation Code Section 7251) and the Additional Local Taxes Law (Part 1.7, commencing with Section 7280) authorize cities and counties to impose district taxes under specified conditions. Counties are authorized to impose a district tax for general purposes and special purposes at a rate of 0.125 percent, or multiples of 0.125 percent, if the required percentage of county voters approve the ordinance imposing the tax.

Cities also are authorized to impose a district tax for general purposes and special purposes at a rate of 0.125 percent, or multiples of 0.125 percent, if the ordinance imposing the tax is approved by the required percentage of voters in the city. Under these laws, the combined rate of these district taxes imposed in any local jurisdiction cannot exceed 2 percent (with one exception in Los Angeles County[1]).

Counties can also establish a transportation authority to impose district taxes under the Public Utilities Code (PUC). Various statutes under the PUC authorize a county board of supervisors to create an authority within the county or designate a transportation-planning agency to impose a district tax, subject to the applicable voter approval requirement. District taxes imposed under the PUC must conform to the administrative provisions contained in the Transactions and Use Tax Law, including the requirement to contract with the BOE to perform all functions related to the administration and operation of the ordinance.

Currently, all district tax ordinances administered by the BOE have boundaries coterminous with city or county lines.

## PROPOSED LAW

Among other things, this bill adds Part 1.86 (commencing with Section 34191.10) to the Health and Safety Code (HSC) to enact the Sustainable Communities Investment Program. The bill authorizes a city, county, city and county, or a special district of a Sustainable Communities Investment Area to form a Sustainable Communities Investment Authority and specify that the Authority must comply with the Community Redevelopment Law (excluding specified sections), and the Sustainable Communities Investment Program.

This bill, as it pertains to the BOE, authorizes a Sustainable Communities Investment Authority to implement a local transactions and use tax under Part 1.6 (commencing with Section 7251) of Division 2 of the Revenue and Taxation Code, except that the resolution authorizing the tax may designate the use of the proceeds of the tax.

**Sustainable Communities Investment Authority (Authority).** The bill allows an Authority to be created as follows:

1) A city, county, city and county, or special district may create an Authority by entering into a joint powers agreement. The joint powers agreement shall establish a governing board and designate the Sustainable Communities Investment Area (SCIA).
2) A city may create an Authority, appoint the Authority governing board, designate a SCIA within the city's incorporated area, and establish the parameters of the proposed economic development within a proposed SCIA, provided the economic development parameters and the Sustainable Communities Investment Plan (SCIP) are approved by the county.
3) A city and a county may create an Authority and appoint its governing board, which must be comprised of two members appointed by the city and two members appointed by the county, with a fifth member appointed by these members. The

[1] In 2003, SB 314 (Chapter 785, Murray) authorized the Los Angeles Metropolitan Transportation Authority to impose a 0.50 percent district tax for specific transportation projects, and excluded that 0.50 percent tax from the 2 percent combined rate limitation established by RTC 7251.1. In 2008, voters within Los Angeles County approved the additional 0.50 percent effective July 1, 2009, which raised the tax rate in the cities of South Gate and Pico Rivera from 9.50 to 10 percent. Effective April 1, 2013, the tax rate in the City of La Mirada (in Los Angeles County) also will be 10 percent.

governing board must designate the SCIA, which may include an incorporated area or both an incorporated area and an unincorporated area. The SCIP must be approved by the city and county.

4) A city may create an Authority, which constitutes a legally distinct entity from that city, and appoint its governing board, which may designate an SCIA only within the incorporated limits of that city.

5) If the SCIA is within an unincorporated area, the board of supervisors of a county may create an Authority and appoint its governing board.

The bill specifies that a school district shall be excluded from participating in an Authority. In addition, the bill prohibits a city or county that created a redevelopment agency dissolved pursuant to ABx1 26 (Ch. 5, Stats. 2011, Blumenfield) from forming an Authority unless the DOF has issued its successor agency a finding of completion indicating that the local government has complied with requirements to distribute the former agency's assets to the appropriate taxing entities.

**Sustainable Communities Investment Area (SCIA).** Under Health and Safety Code Section 34191.25, an SCIA includes:

1) Transit priority project areas, as defined in Public Resources Code (PRC) Section 21155, provided that, if the SCIA is based on proximity to a planned major transit stop or a high-quality transit corridor, the stop or corridor must be completed within the planning horizon established by the Code of Federal Regulations. A transit priority project area may include a military base reuse plan, as specified, and may include a contaminated site within a transit priority project area.

   A. If the SCIA includes a high-speed rail station, the radius of the area may be up to one mile from a high-speed rail station. If the project area consists of a radius greater than one-half of one mile, at least 50 percent of property tax increment revenue derived from the area must be used to support construction of the high-speed rail station and related infrastructure.

   B. All or part of a transit priority project area may be included in the SCIA or an area may include one or more contiguous transit priority project areas.

   C. Transit priority project areas must be within the geographic boundaries of a metropolitan planning organization (MPO) in which a sustainable communities strategy (SCS) has been adopted by the MPO and the State Air Resources Board (ARB). The ARB must have accepted the MPO's determination that the SCS would, if implemented, achieve the region's greenhouse gas emission reduction targets.

2) Areas that are small walkable communities, as defined in paragraph (4) of subdivision (e) of PRC Section 21094.5, except that small walkable communities may also be designated in a city that is within the area of an MPO. No more than one small walkable community project area may be designated within a city. All or part of a small walkable community may be included in the SCIA.

   - Small walkable community project means a project that is in an incorporated city and meets the following:

     o Has a project area of approximately one-quarter mile diameter of contiguous land completely within the incorporated boundaries of the city.

- o Has a project area that includes a residential area adjacent to a retail downtown area.
- o The project has at least eight dwelling units per acre or a floor area ratio for retail or commercial use of not less than 0.50.

An SCIA can also include sites that have land use approvals, convenants, conditions and restrictions, or other effective controls restricting the sites to clean energy manufacturing, and that are consistent with the use, designation, density, building intensity, and applicable policies specified for the SCIA in the applicable SCS, if those sites are within the geographic boundaries of an MPO. The bill specifies that clean energy manufacturing consists of the manufacturing of any of the following:

- Components, parts, or materials for the generation of renewable energy resources;
- Equipment designed to make buildings more energy efficient or the component parts thereof;
- Public transit vehicles or its component parts; or
- Alternative fuel vehicles or its component parts.

The bill would become effective on January 1, 2014.

### IN GENERAL – DISTRICT TAXES

California voters have approved new district taxes in their cities or counties. These district taxes are levied exclusively within the borders of either a county or an incorporated city (with the exception of the Bay Area Rapid Transit District, which is comprised of Alameda, Contra Costa, and San Francisco counties, and the Sonoma-Marin Area Rail Transit District). Cities and counties that levy a tax within their borders are referred to as “districts.”

District transactions (sales) taxes are imposed on the sale of tangible personal property in a district. If a retailer is located in a district, his or her sales are generally subject to district sales tax, either when the purchaser picks up the property at the retailer’s place of business or when the retailer delivers the property to the purchaser in the district. Retailers located within a district selling and delivering outside the district, generally are not liable for district sales tax in their district.

District use tax is imposed on the storage, use, or other consumption of tangible personal property in a district. Retailers generally must report district use tax if they are “engaged in business” within a district. Retailers are considered “engaged in business” in a district if one of the following conditions applies:

- The retailer maintains, occupies, or uses, permanently or temporarily, directly or indirectly, or through a subsidiary or agent, by whatever name called, any type of office, sales room, warehouse, or other place of business in the district.
- The retailer has any kind of representative operating in the district for the purposes of making sales or deliveries, installing or assembling tangible personal property, or taking orders.
- The retailer receives rentals from a lease of tangible personal property located in the district.
- The retailer is a retailer of vehicles or undocumented vessels which will be registered, or aircraft which will be licensed, in a district.

A retailer "engaged in business" in a district generally is required to collect and report district use tax on a sale when it ships or delivers the property into the district or participates within the district in making the sale of the property. The following example illustrates when retailers should collect and report district use tax:

> A retailer in Sacramento County makes a taxable sale of property that it delivers to the purchaser in the City of Concord in Contra Costa County, who will use the property there. Even though the sale is subject to the state sales tax, the sale would be exempt from Sacramento County district sales tax because the property was required to be delivered pursuant to the contract of sale outside the county. However, use of the property in Concord makes the sale subject to the applicable district use tax in Concord and Contra Costa County. If the retailer is "engaged in business" in Concord and delivers the property to the Concord location, he or she is responsible for collecting and reporting district use taxes applicable in the City of Concord and in Contra Costa County. Conversely, if the retailer is not engaged in business anywhere in Contra Costa County, the retailer is not responsible for collecting any district use tax.

### District Taxes Currently Administered by the BOE

Beginning April 1, 2013, there will be 169 local jurisdictions (city, county, and special purpose entity) imposing a district tax for general or specific purposes. Of the 169 jurisdictions, 43 are county-imposed taxes and 126 are city-imposed taxes.

The maximum combined rate of all district taxes imposed in any county cannot exceed 2 percent (with the exception of Los Angeles County). The city district taxes count against the 2 percent maximum. District taxes increase the tax rate within a city or county because the district tax rate is added to the combined state and local (Bradley-Burns local tax) tax rate of 7.50 percent.

Currently, the district tax rates vary from 0.10 percent to 1 percent. The combined state, local, and district tax rates range from 7.625 to 9.50 percent. A listing of the district taxes, rates, and effective dates is available on the BOE's website: www.boe.ca.gov/sutax/pdf/districtratelist.pdf.

### Legislative History

This bill is very similar to SB 1156 (Steinberg) of the 2011-12 Legislative Session. SB 1156 was passed by the Assembly 50-27 on August 28, 2012, and by the Senate 21-14 on August 29, 2012. However, Governor Brown vetoed the bill on September 29, 2012, with the following message:

> "This bill would allow local governments to establish a Sustainable Communities Investment Authority to finance activities within a specified area. The planning and investment that is envisioned by this bill would help to develop and redevelop a California that is sustainable and thriving.
>
> I prefer to take a constructive look at implementing this type of program once the winding down of redevelopment is complete and General Fund savings are achieved. At that time, we will be in a much better position to consider new investment authority. I am committed to working with the Legislature and interested parties on the important task of revitalizing our communities."

## COMMENTS

1. **Sponsor and Purpose.** The author sponsored this measure to provide funding sources through the use of tax increment, including transactions and use tax, to

finance specified projects, such as small walkable communities, transit priority areas, and clean energy manufacturing that would be part of the sustainable community strategy.

According to the author's office, "this bill sets forth a new vision of local economic development and housing policy for the 21st century, focused on building sustainable communities and creating the high skill, high wage jobs that are the key to our future prosperity."

2. **The May 2, 2013 amendments** correct a HSC section reference, add a coauthor, and make technical, nonsubstantive changes. **The April 15, 2013 amendments** prohibit a city or county that created a redevelopment agency from forming an Authority unless the successor agency has received a finding of completion from the DOF.

3. **An Authority imposing a tax along a partial county and city boundary would create significant problems.** As of April 1, 2013, the BOE will administer a total of 169 district taxes for which all have boundaries equal to their respective city and county lines. Without having defined city or county limits to impose the tax, administration and collection of the tax would be extremely difficult. In processing returns, audits, and payments, the BOE assigns a specific code in order to properly identify accounts within a district. As long as a tax is imposed within city or county limits, the BOE can electronically identify accounts within such areas. However, because this bill would allow for the imposition of a tax along partial city and/or county lines, the BOE would have to manually identify accounts and addresses falling within the boundaries of the SCIA.

   In addition, while taxpayers may be aware of city and county boundaries, the same cannot be said of SCIA boundaries. For example, two restaurants could be located across the street from each other, but charge two different district tax rates if one is in a SCIA and the other is not.

   Retailers in the 169 cities and counties that impose district taxes collect the applicable district tax rate for sales made at their business location; however, for shipments of taxable merchandise sent outside their district, they generally charge the statewide base sales and use tax rate (7.50%) unless they are also engaged in business in the district where the merchandise is shipped. If the latter is true, retailers would have to determine whether their customers are located in SCIAs to determine the applicable tax rate. Retailers likely would be confused regarding the correct amount of tax.

4. **Would a district tax levied in a SCIA generate sufficient revenue to fund an Authority's purposes?** As previously stated, the SCIA may cover only a portion of a city or the unincorporated area of a county. Further, the SCIA may include: (1) transit priority project areas; (2) small walkable communities; or (3) clean energy manufacturing sites, if those sites are consistent with the SCS and are within the geographic boundaries of a MPO.

   Would these areas have a sufficient number of businesses to generate the district tax revenues needed both to reimburse the BOE for its administrative costs and fund the Authority's projects? For instance, would a site restricting the area to clean energy manufacturing of equipment designed to make buildings more energy efficient have businesses reporting sufficient amount of district taxes? Presumably, clean manufacturers would owe district use tax on their purchases of equipment and supplies that they consume in the manufacturing of the specified equipment. Would these revenues, however, be sufficient to pay for the specified activities?

5. **Other administrative and technical concerns.** There are several administrative and technical issues that would need to be addressed before the bill becomes law. BOE staff is available to work with the author's office to resolve these and other concerns that may be identified.

   - **Conforming language.** Proposed HSC Section 34191.19, subdivision (b) provides that an Authority may implement a local transactions and use tax under Revenue and Taxation Code Part 1.6 (commencing with Section 7251). The language should specify that an Authority may impose a transactions and use tax which conforms to and/or is in accordance with the bill's provisions and Part 1.6.

   - **Ordinance vs. Resolution**. Section 341919.19, subdivision (b) provides that the resolution authorizing the tax may designate the use of the proceeds of the tax. However, current Revenue and Taxation Code statutes require that an ordinance, not a resolution, authorize the imposition of the tax. Certain sections of the Transactions and Use Tax Law in the Revenue and Taxation Code were amended to clarify that an ordinance, not a resolution, is necessary for the adoption of the tax. Prior to these amendments, administrative issues arose, including delays in implementation, when a jurisdiction attempted to levy district taxes using a resolution. It is recommended that the term "resolution" be replaced with "ordinance."

   - **Tax rate.** The bill does not specify a rate or rates. Under the Transactions and Use Tax Law, there are various statutes authorizing cities and counties to levy a district tax, all of which specify a rate. As stated under "Current Law," cities and counties may levy a district tax for general or special purposes at a minimum rate of 0.125 percent and in 0.125 percent increments. Under the PUC, counties may levy a district tax for transportation purposes at a rate of 0.25 percent or increments of 0.25 percent. Does the author wish to specify a rate or rates?

   - **No language referencing voter approval requirements.** The various statutes under the Transactions and Use Tax Law authorizing cities and counties to impose district taxes include vote requirements for adopting new taxes, both by the appropriate governing body and those voting in an election on the issue. Moreover, the various statutes in the PUC authorizing counties to establish a transportation authority to levy district taxes for transportation purposes contain vote requirements for both the governing body of the authority and the local electors. It is recommended that the bill add language clarifying the vote requirement for this tax.

   - **Operative date.** Any new district tax would become operative on the first day of a calendar quarter commencing more than 110 days after the adoption of the ordinance pursuant to Revenue and Taxation Code Section 7265. However, the 110-day timeframe may not provide the BOE sufficient time to effectively implement multiple district tax ordinances. As previously stated, BOE staff would have to manually identify accounts and addresses falling within the boundaries of the SCIA. The Authority imposing the new district tax would have to provide a complete alphabetical list of all streets within the affected area with beginning and ending street numbers. This information is essential to identify businesses that must be changed to account for the new tax. An Authority may need at least

30 days to provide this information. It is recommended that the bill be amended to provide for a separate statute under the Health and Safety Code related to the operative date of a SCIA ordinance. Further, it is suggested that the bill provide for an operative date of the first day of the first calendar quarter commencing more than 150 days after the adoption of the ordinance by the voters.

- **Preparatory Costs.** Preparatory costs include costs to develop procedures, perform programming, develop and adopt regulations, design and print forms, update publications and returns, and develop instructions for BOE's staff and taxpayers, and any other necessary preparatory costs. These costs also include costs to recode business accounts located within an SCIA. The Transactions and Use Tax Law limits these costs to be paid by a district at $175,000.

  Because an SCIA is contained within a part of a city and/or unincorporated area of a county, the BOE would have to manually identify the accounts and addresses falling within the boundaries of the SCIA, and then recode those accounts. BOE staff anticipates that its costs to implement a larger SCIA ordinance would exceed the $175,000 limit. For these reasons, it is recommended that the bill provide specific statutory authority in the Health and Safety Code allowing the BOE to charge a maximum of $500,000 in preparatory costs. BOE staff will work with the author's office to draft amendments to address this concern.

- **Subdivision (b) of HSC Section 34191.30 needs clarifying.** Subdivision (b) reads, "An authority may implement a local transactions and use tax under Part 1.6 (commencing with Section 7251) of Division 2 of the Revenue and Taxation Code, except that the resolution authorizing the tax may designate the use of the proceeds of the tax." This provision implies that the resolution does not designate the use of the tax proceeds. On the contrary, Transactions and Use Tax Law requires an authority to adopt an ordinance, not a resolution, to impose a transaction and use tax. The law further requires that the ordinance include an expenditure plan to describe the specific projects for which the tax proceeds may be spent.

  According to the author's office, subdivision (b) is intended to address that the tax proceeds would not necessarily need to be allocated on the situs basis that local sales and use tax law requires. According to the author's office, there could be a revenue sharing agreement between the city and county. However, this provision does not allow for a different allocation method nor does it provide for revenue sharing agreements. It is recommended that the provision be amended to clarify the author's intent. BOE staff is willing to work with the author's office to address this concern.

  With respect to revenue sharing agreements, such agreements would not impact the BOE's administration of the proposed tax. However, to allocate on a non-situs basis the transactions and use tax proceeds would significantly impact the BOE's administration.

6. **This bill may set a precedent for special districts to impose a district tax.** Currently, all district tax ordinances administered by the BOE have boundaries coterminous with city or county lines.

   This bill would authorize the use of district taxes to fund the development of an SCIA, which would consist of transit priority projects, small walkable communities, and clean energy manufacturing sites. These project areas do not have boundaries coterminous with city or county lines.

In addition, approximately 12,000 special districts operate in California, including cities, redevelopment agencies, school districts, and other special districts. These districts were formed for various purposes, such as air pollution, airports, fire, flood, hospitals, libraries, mosquito abatement, park, public safety, school districts, sewer, and water. Some of these districts have boundaries that include multiple cities and counties. These districts sometimes include portions of cities and counties.

This bill may set a precedent for special districts to levy district taxes. The varying tax rates and varying special district areas would make compliance extremely difficult for taxpayers.

**COST ESTIMATE**

This bill does not increase administrative costs to the BOE because it only authorizes an Authority to impose a tax. Voter approval would be required before any tax is levied pursuant to these provisions.

If an Authority adopted an ordinance to levy the tax, the Authority would be required to contract with the BOE to perform all functions related to the ordinance, and pay to the BOE its costs of preparation to administer the ordinance, as well as the costs for the BOE's services in actually administering the ordinance pursuant to the Transactions and Use Tax Law. Costs for preparation and administration of this tax could be higher than other district taxes the BOE administers because the proposed tax is unlike other district taxes.

**Preparatory costs.** Based on the BOE's experience with city and county imposed taxes, one-time preparatory costs typically can range from $12,000 to $138,000. Preparatory costs are the actual costs to update publications and returns, perform programming for data processing, develop instructions for both BOE staff and taxpayers, notify taxpayers, and include other necessary costs, such as those from other state agencies (e.g., California Department of Motor Vehicles costs to train staff and program computers). In addition, various factors can impact the BOE's preparatory costs. For example, the BOE mails a special notice to taxpayers in the affected city or county, including adjacent areas. If a city or county has a large number of seller's permits, the BOE's mailing costs could be substantially higher.

In addition, because of certain fixed costs, the preparatory costs can vary depending on the number of new district taxes being implemented at the same time. For example, the cost of updating a publication and return to add four new taxes is similar to the cost to add one new tax. Moreover, those costs would be shared among four new districts instead of just one district. Thus, depending on the number of district taxes being implemented at the same time, the preparatory costs can vary.

**One-time programming costs.** The BOE anticipates one-time programming costs of $275,000 to make extensive modifications to the BOE's computer system to identify and track a district tax for a SCIA. The majority of these costs would be for the initial programming to set up new processes for the SCIAs. These costs would be the same regardless of whether one Authority or ten Authorities adopt an ordinance to impose the new tax. The first entities to adopt a new tax under this bill would incur the one-time programming costs for implementation.

**On-going administrative costs.** For perspective, the BOE's estimated fiscal year 2012-13 administrative costs assessed to the existing city and county special taxing jurisdictions range from $550 to $2,491,000 with the exception of Los Angeles County, which has higher administrative costs due to a substantially higher number of seller's permits.

**REVENUE ESTIMATE**

This bill would not affect state revenues.

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**PROPOSED AMENDMENTS SB 1**
As amended 05/02/13
Prepared by the State Board of Equalization

AMENDMENT 1

On page 14, strike out lines 16 through 20.

AMENDMENT 2

*Section 34191.30.1 is added to the Health and Safety Code, to read:*

34191.30.1. (a) An authority may levy, increase, or extend a transactions and use tax if the ordinance proposing the tax is approved by a two-thirds vote of all members of the governing body of the authority and is subsequently approved by a two-thirds vote of the qualified voters of the sustainable communities investment area voting in an election on the issue. The ordinance shall conform to Part 1.6 (commencing with Section 7251) of Division 2 of the Revenue and Taxation Code, other than Sections 7265 and 7272.

(b) The ordinance proposing the tax shall designate the use of the proceeds of the tax.

(c) (1) Notwithstanding Section 7265 of the Revenue and Taxation Code, any transactions and use tax ordinance adopted pursuant to this part shall be operative on the first day of the first calendar quarter commencing more than 150 days after adoption of the ordinance.

(2) Prior to the operative date of the ordinance, the authority shall contract with the State Board of Equalization to perform all functions incidental to the administration and operation of the ordinance.

(3) Within 45 days from the date the ordinance is approved by the voters, the authority shall provide the State Board of Equalization with a complete alphabetical list of all street names and address numbers of each property located within the applicable sustainable communities investment area. The authority shall also provide a legal description and a map or plat, both describing the boundaries of the applicable sustainable communities investment area.

(d) Notwithstanding Section 7272 of the Revenue and Taxation Code, the authority shall pay to the State Board of Equalization its costs of preparation to administer and operate the transactions and use tax ordinance. The authority shall pay such costs monthly as incurred and billed by the State Board of Equalization. Such costs include all preparatory costs, including costs of developing procedures, programming for data processing, developing and adopting appropriate regulations, designing and printing of forms, developing instructions for the State Board of Equalization's staff and for taxpayers, and other necessary preparatory costs which shall include the State Board of Equalization's direct and indirect costs as specified by Section 11256 of the Government Code. Any disputes as to the amount of preparatory costs incurred shall be resolved by the Director of Finance, and his or her decision shall be final. The maximum amount of all preparatory costs to be paid by the authority shall not, in any event, exceed five hundred thousand dollars ($500,000).